

MEMORANDUM

TO: Enron Files

FROM: Reed M. Brodsky

DATE: December 13, 2001

RE: Second Interview of Richard Causey

On December 12, 2001, Joe Brenner and Reed Brodsky of Wilmer, Cutler & Pickering ("WCP") and John Sullivan of Deloitte & Touche (an accounting firm retained by WCP), spoke with Richard Causey, Enron's Executive Vice-President and Chief Accounting Officer, at Enron's Houston headquarters to gather information from him in order to allow WCP to provide legal advice to the Special Committee of Enron's Board of Directors. Jacks C. Nickens of Clements, O'Neill, Pierce, Nickens & Wilson, L.L.P., was present and represented Causey.

This memorandum has been prepared by counsel in anticipation of possible litigation arising from a Securities and Exchange Commission ("SEC") investigation and any parallel or related proceedings. This memorandum incorporates the mental impressions, analyses and opinions of counsel. As such, this memorandum is intended solely to assist counsel in providing legal representation and advice to the Special Committee of Enron's Board of Directors, and is not intended to provide a substantially verbatim recital of Causey's statements. The interview was based on WCP's understanding of the facts and review of documents as of the date of the interview. Furthermore, Causey has not reviewed this memorandum. Therefore, this memorandum may contain inaccuracies and the following discussion of certain events may be incomplete or lack context.

Overview of Disclosure Process

Causey stated that he was generally responsible for the preparation and drafting of the financial statements in the 10-Q's and 10-K's. Legal personnel were primarily responsible for the preparation and drafting of the proxy statements.

Drafters. Bob Butts was in charge of preparing the drafts for the 10-Q's and 10-K's. Jan Johnson, and later Gary Peng, was the head of the financial group that prepared the drafts, including the financial statements, the footnotes to the statements, and the management discussion and analysis. Johnson and Peng reported directly to Butts. Shortly after each quarter ended, Butts, Johnson, and Peng started the drafting process. Butts, Johnson, and Peng, and their staff, gathered together the relevant detailed information from accounting personnel at various business units. After gathering the information, they would prepare a draft of the 10-Q or 10-K and distribute it to a large group of people. Before the drafts were distributed widely, Causey would normally receive a first draft of the 10-Q and a first draft of the 10-K (except for the front section of the 10-K, which Rex Rogers and legal personnel would review). Butts and Peng lead

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the team that drafted the footnotes regarding related-party transactions, and legal personnel helped.

Causey. Causey did not receive the draft 10-Q's and 10-K's piecemeal, but rather he received the draft in one document. Typically, Causey would not focus on the very early drafts that he received, because it was too early in the process and Causey knew that changes would be made. Eventually, Butts would tell Causey that the draft was in good shape, and Causey would then review it. After Butts felt that he had a good draft, he distributed the draft 10-Q's and 10-K's to a broad group of people, which included the heads of business units, accounting people, and legal personnel, who would then give the drafts different levels of attention.

In general, Causey read two drafts of the 10-Q's. Early in the process, Causey would review a draft after Butts told him that it was in good shape. At this stage, the draft was incomplete. After reviewing it, Causey would meet with Butts and discuss any changes. Butts might give a revised draft back to Causey so that Causey could check changes that were made. Causey did not keep copies of any of the initial drafts or marked-up drafts that Butts returned to him; Causey did not know whether Butts kept any of Causey's marked-up drafts. Causey would review the draft fully again for a second time much later in the process.

In general, Causey estimated that he read, on average, three drafts of the 10-K's. As with the 10-Q, Causey would not generally review the first draft of the 10-K that came to his attention. Causey would wait until Butts let him know early on in the process that the draft was in good shape and ready for his review.

Skilling. Jeff Skilling provided his comments on the draft 10-Q's and 10-K's to Causey. Causey would highlight parts of the drafts that, in Causey's view, warranted Skilling's attention. Causey would typically leave Skilling a voicemail message about his comments or sometimes meet with Skilling. Sometimes nothing would warrant Skilling's attention. In general, Skilling's comments were very straightforward. No other senior managers provided their comments on the draft 10-Q's and 10-K's directly to Causey. Others, such as the investor relations group, headed by Mark Koenig, would provide comments to Butts directly.

Arthur Andersen. Arthur Andersen would receive drafts at least as regularly as Causey would. Andersen would review and then comment on the drafts. Peng would know more about Andersen's role in the drafting process. In general, Butts and Peng would work with Andersen on the footnotes to the financial statements and, if there were any issues that needed to be discussed, Causey would meet with Butts and Dave Duncan (the Andersen engagement partner) to discuss them.

Vinson & Elkins. Vinson & Elkins' role in the drafting process was largely coordinated through Enron's legal department. Rex Rogers would know more about Vinson & Elkins' role in the process.

Non-officer directors. Typically, the Audit Committee would not review drafts of the 10-Q's. Instead, the Audit Committee was provided with feedback on a quarterly basis by Causey and Duncan. Causey noted that the last 10-Q (for the third quarter of 2001) was an exception to

the rule, and the Audit Committee was provided with a draft of the 10-Q before it was filed. Everyone on the Audit Committee would receive a draft of the 10-K before the Audit Committee meeting. Causey's practice was to attend the Audit Committee meetings, focus the Committee on a few highlights in the 10-K, and answer any questions. Other than the Audit Committee, no other non-management directors would receive a copy of draft 10-Q's or 10-K's.

Related-party disclosures. Causey had the impression that Butts, Johnson, Peng, and legal personnel participated significantly in preparing the disclosure regarding related-party transactions. Causey did not know which people drafted the specific parts of the disclosure. Causey knew that related-party transactions were going to be disclosed, and he focused on it to some extent because he knew that it was a sensitive matter. However, he did not focus on the disclosure about related-party transactions any more than he would any other sensitive matter.

Causey brought the disclosure of related-party transactions to Skilling's attention, because he wanted Skilling to know about the disclosure. He specifically raised the disclosure about the Raptor transactions with Skilling. When Skilling asked whether the disclosure was required, Causey told Skilling that it was. Causey did not remember Skilling's specific comments about disclosure of related-party transactions. In general, Skilling commented on the clarity of the disclosure and whether it was easily readable and understandable.

Causey did not recall any particular meetings or discussions of disclosures regarding related-party transactions or LJM. People in general commented on related-party transactions. Causey told the Finance Committee and the full Board that specific disclosure about related-parties was required. Causey stated that the same standard of disclosure – FAS 57 – applied to the LJM transactions as it did to all other related-party disclosures. Causey was not aware of any other guidelines that were applied to the related-party disclosure. Andersen never gave Causey materials on FAS 57 or other disclosure obligations, but Andersen may have provided such information to Butts or Peng.

Causey did not recall anyone raising any issues or concerns internally about disclosure regarding related-party transactions or LJM. There were no special meetings or training sessions regarding disclosure of related-party transactions. Andersen would have raised general comments about the disclosure, but Andersen's comments would have been no different than with respect to any other part of the financial statements. Causey did not recall any broad, generally positive or negative comments from Andersen about disclosure regarding related-party transactions or LJM. Causey did not remember asking Andersen specifically to focus on disclosure of related-party transactions. It was clear to Causey that Andersen was focused more on the footnotes about related-party transactions than other parts of the public filings. Related-party transactions may have been raised during Rodney Faldyn's weekly meetings about transactions, but they would not have come up in the context of disclosure in public filings. With respect to legal personnel and Vinson & Elkins, the only thing that Causey remembered was that Jordan Mintz had worked hard on the disclosure regarding related-party transactions and LJM in the proxy statements. If issues about the disclosure in the 10-Q's and 10-K's came up at all, they came up in discussions and comments about specific related-party transactions.

10-Q for the Second Quarter 1999

Brenner showed Causey footnote 8 to the financial statements of Enron's 10-Q for the quarterly period that ended June 30, 1999, entitled "Related Party Transactions." Causey did not remember whether there was a particular focus on the LJM related-party transactions when they were disclosed for the first time in the 10-Q for the second quarter. He also did not have any particular recollection regarding this footnote. He was not aware of the information sources used by the drafters of this footnote. Causey did not remember whether LJM's stated purpose at that time was engaging "in acquiring or investing primarily in energy related investments" as stated in the second sentence of footnote 8. However, Causey did not believe that LJM had engaged in acquiring or investing in any energy related investments at the time that this disclosure was made. Causey did not know who drafted the third sentence stating that "[a] senior officer of Enron is managing member of LJM's general partner," and Causey did not know and did not remember any discussion of why Fastow was not identified specifically as the "senior officer." Causey did not believe that there was any discussion about disclosing the compensation that Fastow would receive from LJM. Causey understood that the nature of what Fastow was making was outside what was required to be disclosed under FAS 57. Causey thought that FAS 57 only required disclosure of transactions and the impact of those transactions.

Causey did not recall why the footnote did not disclose specific transaction terms and dollar amounts. He did not recall why it did not specify the amount of the "note receivable" referred to in the fourth sentence. His basic understanding of FAS 57 is that disclosure of the note is required, but disclosure of the amount is not. Causey did not participate in making the decision not to disclose the amount of the note. Causey stated that, looking at it today, the disclosure was written correctly and the transaction was described. Causey speculated that the amount of the note may not have been critical and obviously was not thought to be at the time if it was not disclosed.

Causey did not know who had drafted the last statement in the footnote stating that "[m]anagement believes that the terms of the transactions were reasonable and no less favorable than the terms of similar arrangements with unrelated third parties." Causey must have read and believed it at the time. Causey did not remember whether Price Waterhouse's opinion that the transaction was done at arms-length was important to management's decision to state that the terms of the transaction were reasonable.

Causey did not remember any conversations or discussions about the disclosure of the related-party transactions. A draft of the disclosure was given to him, and he reviewed it. Causey focused on the arms-length nature of the transaction and determined that the disclosure was a fair representation of what had happened. Causey did not know of any record of the discussions that Enron had with Andersen about disclosing related-party transactions and speculated that such discussion might be reflected in any marked-up drafts that were retained.

10-Q for the Third Quarter 1999

Brenner showed Causey footnote 10 to the financial statements of Enron's 10-Q for the quarterly period that ended September 30, 1999, entitled "Related Party Transactions." Causey

did not remember any affirmative decision that derivative transactions between Enron and LJM Swap Sub during the third quarter did not need to be disclosed. Causey stated that there were a series of options that were entered into with LJM Swap Sub that were being perfected for the first time. He speculated that it was not viewed as important to change the disclosure regarding Rhythms NetConnections from what had appeared in the 10-Q for the second quarter.

Causey did not remember any discussion whether LJM's purchase of an interest in Cuiaba or LJM's purchase of Osprey certificates had to be disclosed in footnote 10. Causey speculated that LJM's purchase of Osprey certificates were not disclosed, because they were not direct transactions with Enron, Whitewing had not been consolidated on to Enron's financial statements, and there was no impact on Enron's gains or losses.

Causey did not know if Butts, Johnson, Peng or others preparing the draft 10-Q's and 10-K's had set up a process to identify and learn about Enron's transactions with LJM for purposes of determining what should be disclosed. Causey speculated that legal personnel might have kept the drafters informed and stated that Butts would probably be the best person to talk to about how and what the drafters learned concerning LJM transactions.

Regarding whether the disclosure of transactions, such as LJM's purchase of Cuiaba, turned on whether they had an impact on Enron's income, Causey believed that the gain or loss on specific transactions was considered. Causey would think about disclosure in terms of the impact of a specific transaction on Enron. With respect to related-party transactions, Causey looked at whether the transaction in question was with Enron or another entity, and, if it was with another entity, Causey did not consider it a related-party transaction that required disclosure.

10-K for 1999

Brenner showed Causey footnote 15 to the financial statements in the 10-K for the period that ended December 31, 1999, entitled "Related Party Transactions." With respect to the second sentence in the second paragraph stating that LJM2 had "acquired, directly or indirectly, approximately \$360 million of merchant assets and investments from Enron, on which Enron recognized pre-tax gains of approximately \$16 million," Causey would have to check what specific transactions were involved. Causey did not recall any discussion about whether related-party transactions should be aggregated or identified separately, and he did not remember any draft sent to him identifying transactions separately. Causey explained that, in general, similar matters, such as leases, were aggregated for purposes of disclosure, and he believed that the same approach was followed with LJM2 transactions. If Enron had engaged in transactions with different related-parties, the transactions would have been disclosed separately. Causey cautioned, however, that he did not remember his thought process at the time concerning LJM2.

Brenner directed Causey's attention to the third sentence in the second paragraph, stating that "LJM2 entered into an agreement to acquire Enron's interests in an unconsolidated equity affiliate for approximately \$34 million." Causey stated that this statement must be referring to Osprey. Causey did not think it could be referring to Yosemite, because Enron did not have an economic interest in Yosemite and, typically, Enron has an economic interest in unconsolidated

equity affiliates. Causey did not believe it was important to identify the entity for disclosure purposes. Causey explained that his approach with respect to the public filings was to review the drafted disclosure and determine whether the disclosure was factual and accurate. He was not sure that the "who" and "why" mattered as much as the fact that accurate information was disclosed.

Brenner directed Causey's attention to the last sentence of the second paragraph in footnote 16, stating "LJM acquired other assets from Enron for \$11 million." Causey did not remember why this information (which apparently refers to the Cuiaba interest) was disclosed in the 10-K but not in an earlier 10-Q. He speculated that, by the time the 10-K was filed, there was either a better process in place enabling them to gather more information about LJM transactions or more transactions had to be disclosed because over time they had become more significant when considered in the aggregate. Causey was aware that, in connection with the Cuiaba transaction, mark-to-market income was recorded on a gas contract, but he did not recall whether mark-to-market income was recognized in both the third and fourth quarters of 1999, and he did not recall the amount of mark-to-market income that was recognized.

Brenner directed Causey's attention to the last sentence of the third paragraph in footnote 16, stating that "an officer of Enron has invested in the limited partner of JEDI and from time to time acts as agent on behalf of the limited partner's management." Causey was surprised to see this disclosure; he did not recall it and did not remember where this information came from. It was possible that the information was a late addition to the 10-K and did not capture his attention. Causey did not know the underlying facts at the time that this information was disclosed. Causey did not recall discussing this information until the 10-K was filed for the period that ended December 31, 2000.

Brenner directed Causey's attention to the final paragraph in footnote 16, stating that "[m]anagement believes that the terms of the transactions with related parties are representative of terms that would be negotiated with unrelated third parties." Causey did not remember drawing any distinction between the disclosure in the 10-K that the transactions were "representative of terms" that would be negotiated with unrelated parties and the disclosure in the 10-Q's that, by contrast, stated that the terms of the transactions were "reasonable" and "no less favorable than the terms" that would be arranged with unrelated parties. Causey did not remember whether a conscious decision was made to use language in the 10-K that was different from the 10-Q's. Causey also did not remember any discussion or decisions made regarding whether the terms of LJM transactions were "representative" or "reasonable." Finally, Causey did not recall whether the change in terminology came from Enron personnel or outside advisors. He speculated that perhaps the change was made by Enron's legal personnel.

At this point, Nickens stepped out of the interview to make a telephone call, but told us to continue with the interview.

10-Q for the First Quarter 2000

Brenner showed Causey footnote 7 to the financial statements in the 10-Q for the quarterly period that ended March 31, 2000, entitled "Related Party Transactions." Causey

confirmed that the put option discussed in sentence four was given to LJM for free, and he stated that the disclosure in the 10-Q was consistent with what happened. Causey did not remember whether there was any consideration given to disclosing that the put option was given to LJM for free. From his perspective today, Causey stated that he would have to go back and study the issue in its proper context. He recalls that Enron entered into the put option with LJM as part of a negotiation that was taking place and to eliminate the market price risk during what was going to be a short window. In contrast to the full transaction, the existence of the put option was a detail that was not necessarily important and did not necessarily have to be disclosed.

Nickens returned to the interview.

Brenner directed Causey's attention to the last sentence in the first paragraph of footnote 7, stating that "Enron advanced to LJM \$10 million, at a market rate of interest, which was repaid in April 2000." Causey recalled that the purpose of the loan was for LJM to buy out LJM's limited partners. LJM had two limited partners that were banks, and they were bought out. Causey understood at the time that these limited partners were not replaced. When Causey recently learned the identities of the replacement limited partners, he was surprised. He had never conceived that there were other limited partners or that they would be Enron employees.

Causey did not know why the Cortez transaction was not disclosed in the first quarter 10-Q when the transaction was completed before March 31, 2000. Causey did not know whether he was aware of Cortez at the time. Causey would read the disclosure about related-party transactions and rely on the drafters to disclose all the transactions. Causey did not keep a list of transactions and check that each one was disclosed; he relied on his memory. Causey thought that Scott Sefton kept track of the ongoing transactions with LJM. He did not know whether Butts or Peng had access to Sefton's information about the transactions.

10-Q for the Second Quarter 2000

Brenner showed Causey footnote 7 to the financial statements in the 10-Q for the quarterly period that ended June 30, 2000, entitled "Related Party Transactions." Causey did not remember whether there was any rationale for dropping the specific reference to LJM and, instead, referring to an unidentified limited partnership that was a related party. Someone must have thought it was important to add the second sentence in the first paragraph, stating that "[t]he limited partners of the Related Party are unrelated to Enron." Causey did not know why the statement was added or what was done to verify the statement's veracity.

With respect to the third paragraph in footnote 7, Causey thought that this disclosure about the Raptor transactions was the product of the same disclosure process. The Raptor transactions were fairly complicated to describe. Causey remembered working with Butts and Peng to make sure that these transactions were disclosed.

Causey did not remember any discussion of disclosing LJM's purchase of GE Turbines. Causey did not recall any details regarding Enron's involvement in this transaction.

10-Q for the Third Quarter 2000

Brenner showed Causey footnote 7 to the financial statements in the 10-Q for the quarterly period that ended September 30, 2000, entitled "Related Party Transactions." Brenner directed Causey's attention to the fourth paragraph stating that Enron had entered into derivative transactions with newly-formed entities to hedge certain merchant investments and assets and the fifth paragraph stating that management believed the terms were reasonable and representative of terms that would be negotiated with unrelated third parties. Causey did not recall any discussion or consideration about whether the derivative transactions with the Raptor entities were representative of terms that would be negotiated with unrelated third parties. Causey reviewed these statements in footnote 7, but probably did not think about it for a long time.

Causey did not recall any discussion about why the Margaux transactions with LJM2's purchase of the Osprey certificates, and transactions with LJM relating to TNPC should not or did not have to be included in footnote 7. Causey did not recall any discussions at the time about leaving out some transactions or the general disclosure in footnote 7. Causey stated that he had reviewed the footnote and, if he had been aware of something that should have been disclosed but was not, he would have said something about it.

10-K for 2000

Brenner showed Causey footnotes 9 and 16 to the financial statements in the 10-K for the period that ended December 31, 2000, entitled "Unconsolidated Equity Affiliates" and "Related Party Transactions" respectively. Brenner directed Causey's attention to the seventh sentence in the first paragraph below the table on page F-23 in footnote 9, stating that "Whitewing contributed \$7.1 million to a partnership formed by Enron, Whitewing and a third party," and the second paragraph below the table on page F-23 referring to The New Power Company selling stock to the related party. Causey did not know why Whitewing's contribution to the partnership and The New Power Company's sale of stock were not mentioned in Enron's 10-Q for the third quarter even though these transactions took place before the third quarter ended. Causey speculated that more likely than not the transactions were simply missed, and there was no conscious decision to omit mention of these transactions from the 10-Q for the third quarter. Causey further speculated that the drafters of the 10-K may have had more information than at the time the 10-Q for the third quarter was filed, because they had more time to gather the information, and the presentations made to the Audit Committee about LJM transactions meant that there was more information available.

Brenner directed Causey's attention to the second to last sentence in the sixth paragraph of footnote 16, stating "Enron contributed a put option to a trust in which the Related Party and Whitewing hold equity and debt interests." Causey stated that the statement must relate to a put option with Whitewing, and the trust probably refers to Osprey. Causey would guess that that is what this statement is about. Causey believed that Butts would know what this statement relates to specifically, and he speculated that Butts might keep files that would contain the basis for this statement. Causey added that the answer may also be found in Andersen's work papers, but sometimes certain disclosures do not lend themselves to supporting documentation.

Proxy Statements

Causey. Causey did not have a detailed understanding of the process for preparing the proxy statements. Legal personnel – perhaps Rex Rogers – managed the process and coordinated with the people responsible for collecting information about compensation. Causey was one of many that received drafts. He received drafts in the early stages, and he did a cursory review of the draft late in the process to determine if anything stated had raised any issues. Causey did not focus on any particular aspect of the proxy statement. In the last proxy statement, for example, Causey took ownership of the description of the auditor's fees (because it was a new requirement) and worked with David Duncan on this matter. Causey was not aware of the roles played by people on his staff in the preparation of the proxy, and he speculated that Butts only conducted a cursory review of draft proxy statements.

Comparison of public filings. With respect to any overlap with the disclosures in the 10-Q's, 10-K's, and the proxy statements, Causey recalled clearly that there was a process in place to consider the overlap this year, because Jordan Mintz was involved in disclosures for all three public filings. Causey was not aware of whether a comparison was made between the related-party disclosures in the 10-Q's, 10-K's, and the proxy statements. Causey speculated that no comparison was made because there are different requirements for disclosure in 10-Q's, 10-K's, and proxy statements. Causey expected legal personnel to compare the 10-Q's, 10-K's, and proxy statements for consistency. Causey did not have a good understanding of what was required to be disclosed in the proxy statements and relied on legal personnel. He did not remember reviewing the proxy statements to determine whether some of the information should appear in the financial statements of the 10-Q's and 10-K's. If Causey had noticed that more information was disclosed in the proxy statement than the 10-Q's and 10-K's, Causey would not have asked why, because he understood proxy statements had different disclosure requirements. For example, disclosure of the contract between Ken Lay's sister's travel agency and Enron was required in the proxy statements but not in the 10-Q's and 10-K's. Causey reviewed draft proxy statements for inconsistencies and items that did not look right to him.

Related-party disclosure. Causey recalled being very generally aware of the existence of meetings and discussions about the disclosures of related-party transactions and LJM in the proxy statements. Causey was not involved in such meetings and discussions. Mintz and Rogers were involved. Causey did not remember anything specifically, but he recalled that the attorneys were being as careful as they could be.

Causey did not know one way or the other whether the disclosure of Fastow's compensation from LJM was an issue that was raised or discussed. There was definitely no discussion of proxy disclosure of Fastow's compensation from LJM at the Audit Committee meetings. Causey did not think that he ever talked to Fastow regarding disclosures in the proxy statements.

Causey did not recall any questions that were raised regarding the disclosure of LJM in the proxy statements. Based on Mintz' comments to Causey, Causey understood that Mintz had worked very hard on the disclosure relating to related-party transactions in the last proxy.

Skilling. Causey did not know whether Skilling was involved in the preparation or review of the proxy statements.

Andersen. Andersen played a limited role, if any, in preparing and reviewing draft proxy statements. Causey assumed that Andersen received draft proxy statements late in the process. If Andersen had any input into the preparation of the proxy statements, Andersen would have sent its comments to either Causey or Butts. Causey did not remember Andersen coming to him regarding any disclosure in the proxy statements. Duncan also had a direct relationship with Rogers.

SPEs. Causey did not believe that there was any discussion of disclosing in the management discussion and analysis section Enron's use of Special Purpose Entities ("SPEs") and the role SPEs played in the financial statements. Andersen never raised general disclosure relating to SPEs as an issue. Causey never considered or thought about disclosing this information. The issue never came up in Causey's discussions with Koenig or the investor relations group.

Causey did not remember hearing from Koenig or Steve Kean regarding the purpose or use of SPEs. From time to time, Enron was criticized for having complicated filings, but Causey never heard anything about SPEs from Koenig or Kean.

Unconsolidated affiliates. There was a fairly lengthy footnote about unconsolidated equity affiliates in Enron's public filings. Causey felt that the disclosure about such affiliates was complete. There was no discussion with Andersen about disclosing more information about the affiliates than what was disclosed.

Analyst Calls

Causey only participated in the regularly scheduled earnings release calls, not the regularly scheduled quarterly calls. Causey did not remember any mention of related-party transactions during the earnings release calls. Other than during the regularly scheduled earnings release calls and approximately three times when Koenig would introduce an analyst to Causey and Causey would answer the analyst's questions, Koenig would handle any questions from analysts. Koenig did not contact Causey about these analyst questions. Causey was certain that Koenig had asked for an explanation of the related-party transactions and that they had discussed such transactions. However, Causey did not remember any specific discussions with Koenig about Raptor.

Comments From SEC

The only comments that Causey recalled from the SEC about Enron's public filings were from about two to three years ago. Causey was almost certain that the SEC comments had nothing to do with disclosure about related-parties.

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